
The Economic Crisis: A Global Value Chain Perspective

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Globalization and Employment:
Global Shocks, Structural Change and Policy Response

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AGENDA

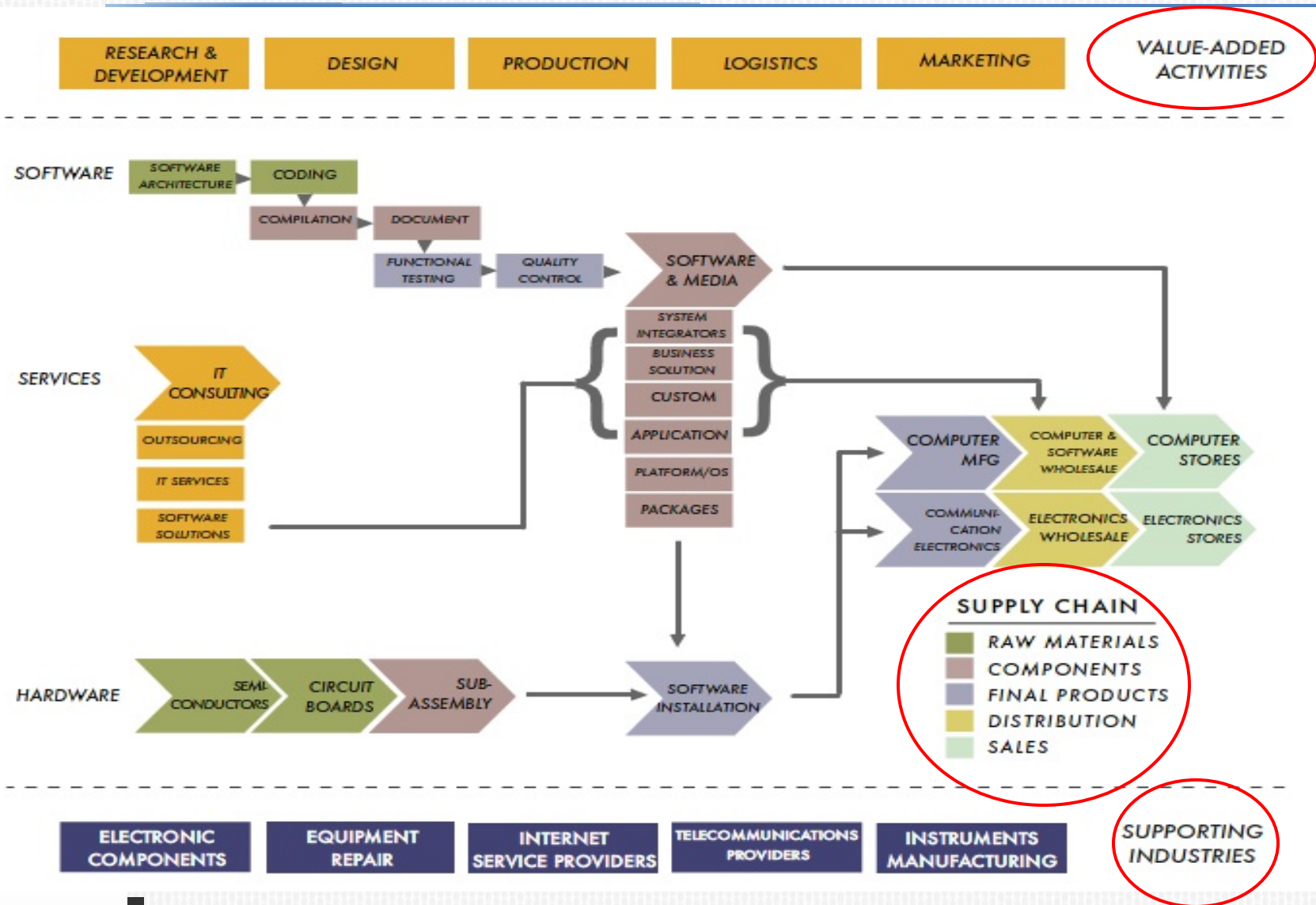
1. Global Value Chains
2. Structural Changes in the Apparel Industry
3. Offshore Services & the Economic Crisis

THE GLOBAL VALUE CHAIN APPROACH

Global value chain framework developed over the past decade by a diverse interdisciplinary and international group of researchers who have tracked the global spread of industries and their implications for both corporations and countries

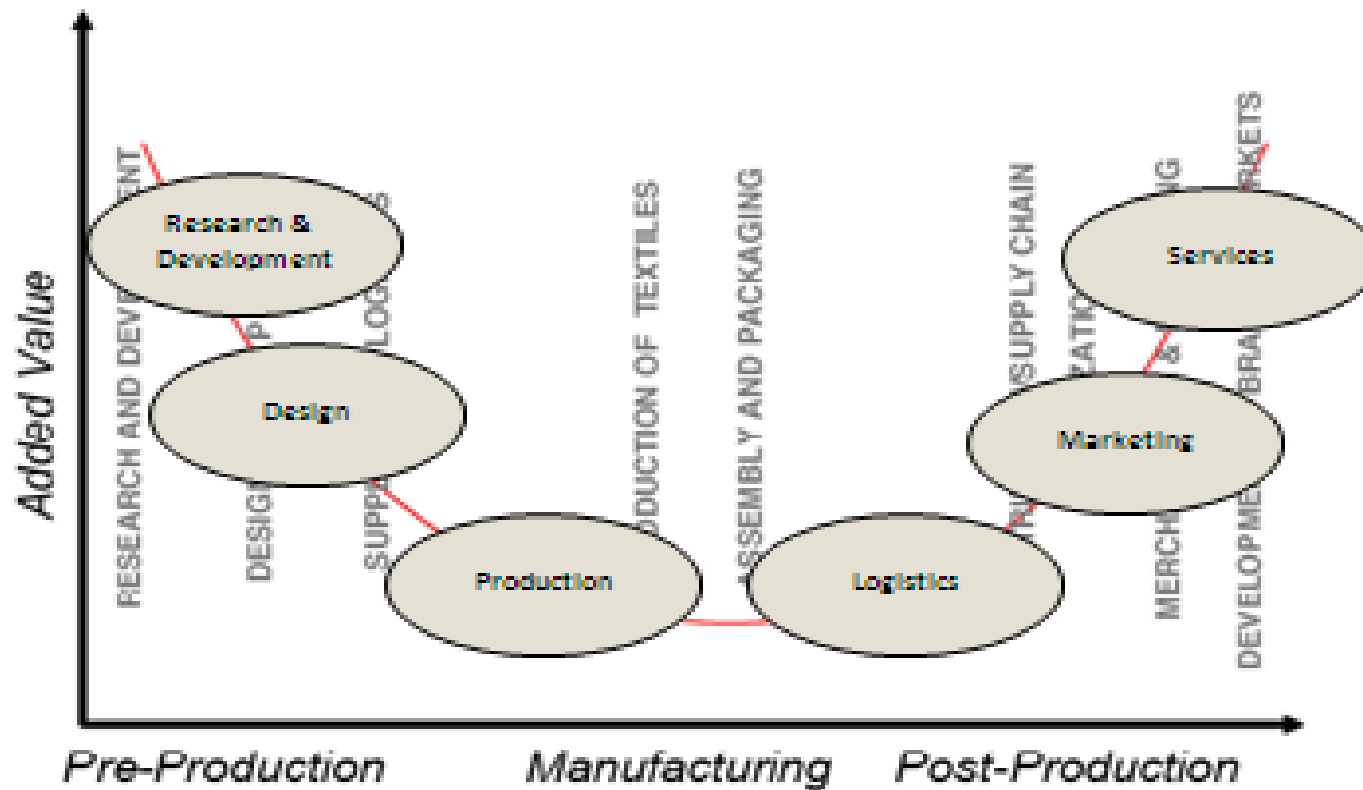
- ✦ Global value chain analysis provides both conceptual and methodological tools for looking at the global economy
 - + **Top down** (with a focus on lead firms and inter-firm networks, using varied typologies of industrial “governance”)
 - + **Bottom up** (with a focus on countries and regions, which are analyzed in terms of various trajectories of economic and social “upgrading” or “downgrading”).

WHAT IS A VALUE CHAIN?



Value-Added Curve in Textiles

DISTRIBUTION of TEXTILE COMPLEX BUSINESS



ECONOMIC CRISIS: ACCELERATED SHIFTS IN GLOBAL DEMAND AND PRODUCTION

× *Shifts in global demand*

- + Shifting markets to the South
- + Opportunities for **upgrading** (new markets)
- + Possibilities of **downgrading** (lower standards; less value added)

× *Shifts in global production*

- + Consolidation of global value chains
- + **Upgrading** (capture more value)
- + **Downgrading** (more intense competition)

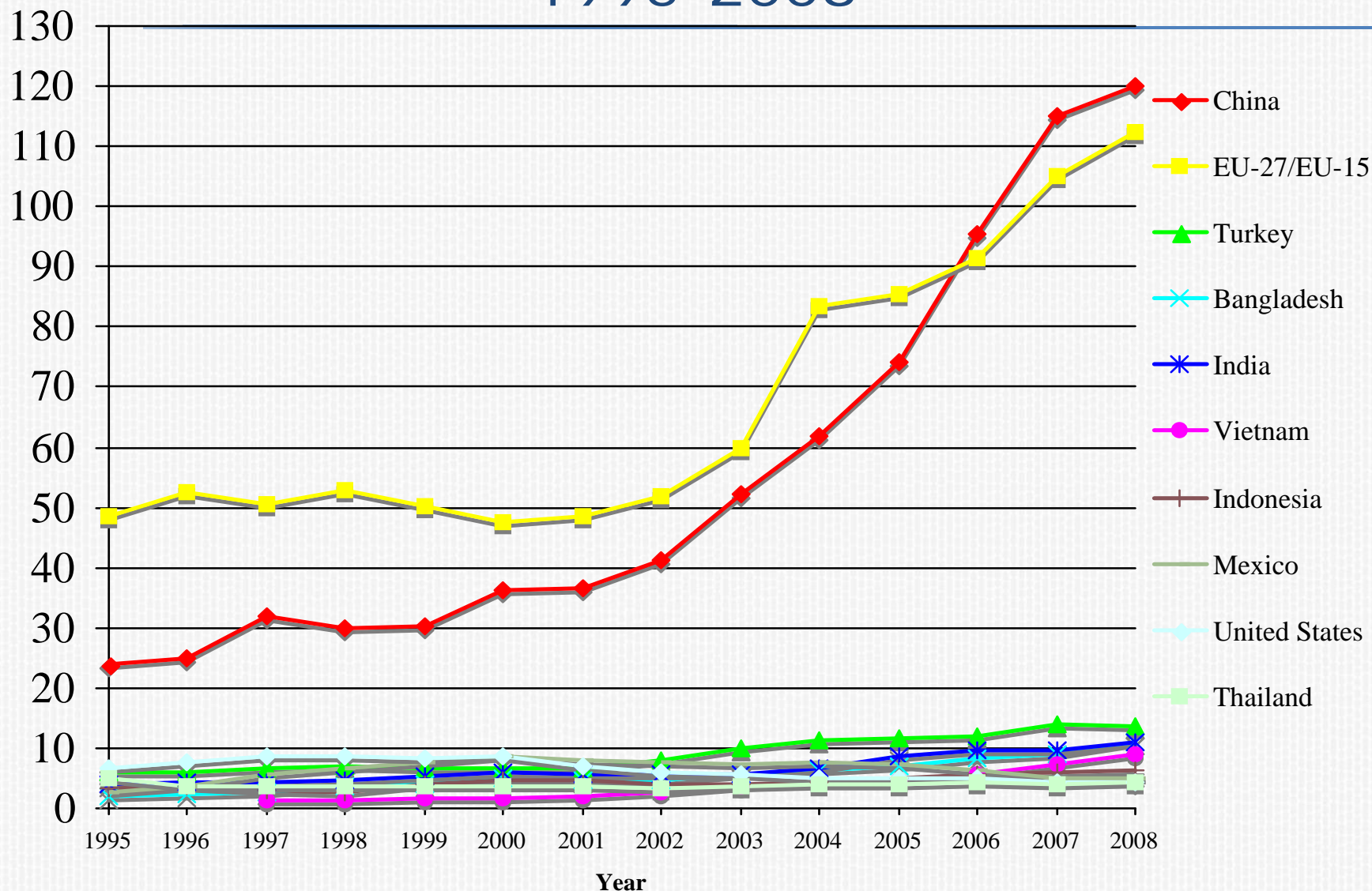
CHANGES IN THE APPAREL INDUSTRY

TWO CRISES IN THE APPAREL VALUE CHAIN

- × MFA-ATC Phase-Out (1995-2005/2007)
 - + Elimination of quotas
 - + Created global overcapacity in production

- × Current Economic Crisis (2008-Present)
 - + Decline in consumer purchasing
 - + Decline in export volumes and value
 - + Decline in apparel employment

SHIFTS IN TOP 10 APPAREL EXPORTERS: 1995-2008



LEADING APPAREL EXPORTERS, 2009

EXPORT, EMPLOYMENT AND WAGE STATISTICS

Country	Export Value, US\$B (a)	Employment (b)	Estimated Employment Loss and % Total (b)	Apparel Export Dependence (c)
China	\$120.00	T&A: 30 million	10 million (33%)	8.40%
Extra EU-27	\$27.70	--	--	--
Turkey	\$13.60			10.30%
India	\$10.90	T&A: 35 million	300,000-1 million (0.9-3%)	6.10%
Bangladesh	\$9.40	T&A: 3 million	0 (0%)	71.10%
Vietnam	\$9.00	T&A: 2 million	20,000-30,000 (1.0-1.5%)	14.30%
Indonesia	\$6.30	T&A: 1 million	41,000-100,000 (4-10%)	4.50%
Mexico	\$4.90	T&A: 750,000	36,000-80,000 (4-10%)	1.70%
Pakistan	\$3.90	T&A: 2.5 million	200,000 (8%)	19.20%
Cambodia	\$3.60	A: 352,000	74,500-75,500 (20-22%)	84.80%
Sri Lanka	\$3.30	A: 270,000		40.90%

(a): UNComtrade, SITC 84; (b): Forstater, M. (2010). *ILO Report: Implications of the global financial and economic crisis on the T&A sector*.

(c): WTO International Trade Statistics Report (2009); (d): Jassin-O'Rourke Group: Global Apparel Manufacturing Labor Cost Analysis 2008.

SOURCING TRENDS ACCELERATED BY CRISIS

Buyers

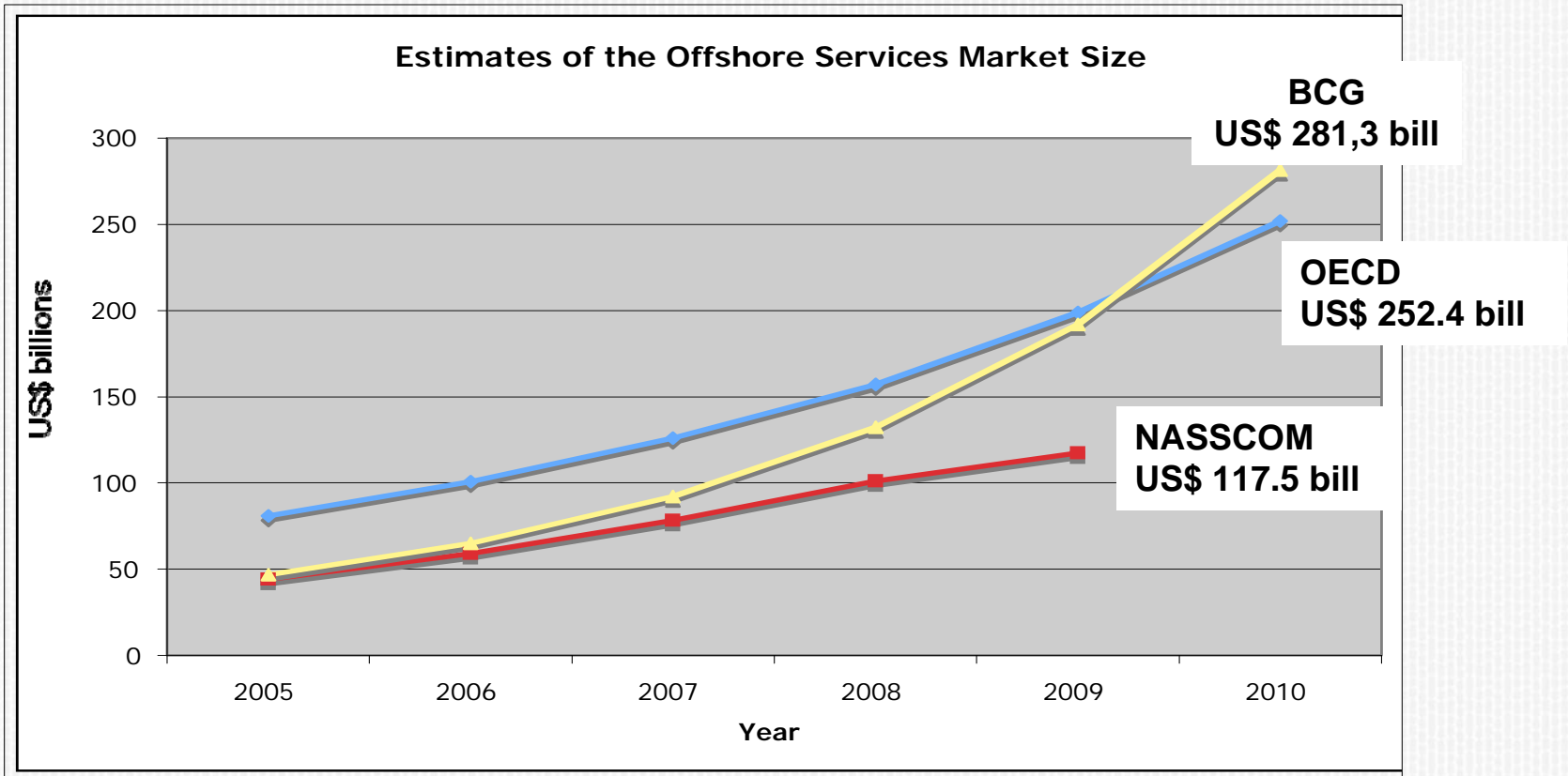
- × Growing reliance on **China**
- × Lead firm **consolidation** (buyers, mfrs, traders)
- × Supply chain **rationalization** (fewer, larger, more capable suppliers)
- × Supply chain **collaboration** (for economic, social & environmental upgrading)

Suppliers

- × **Diversify**: buyers, products, end markets
- × Increased production for **large domestic markets**
- × **Full package production** capabilities
- × **Technology** investments (IT, flexible production)
- × Obtain **certifications** (quality, environmental, social)

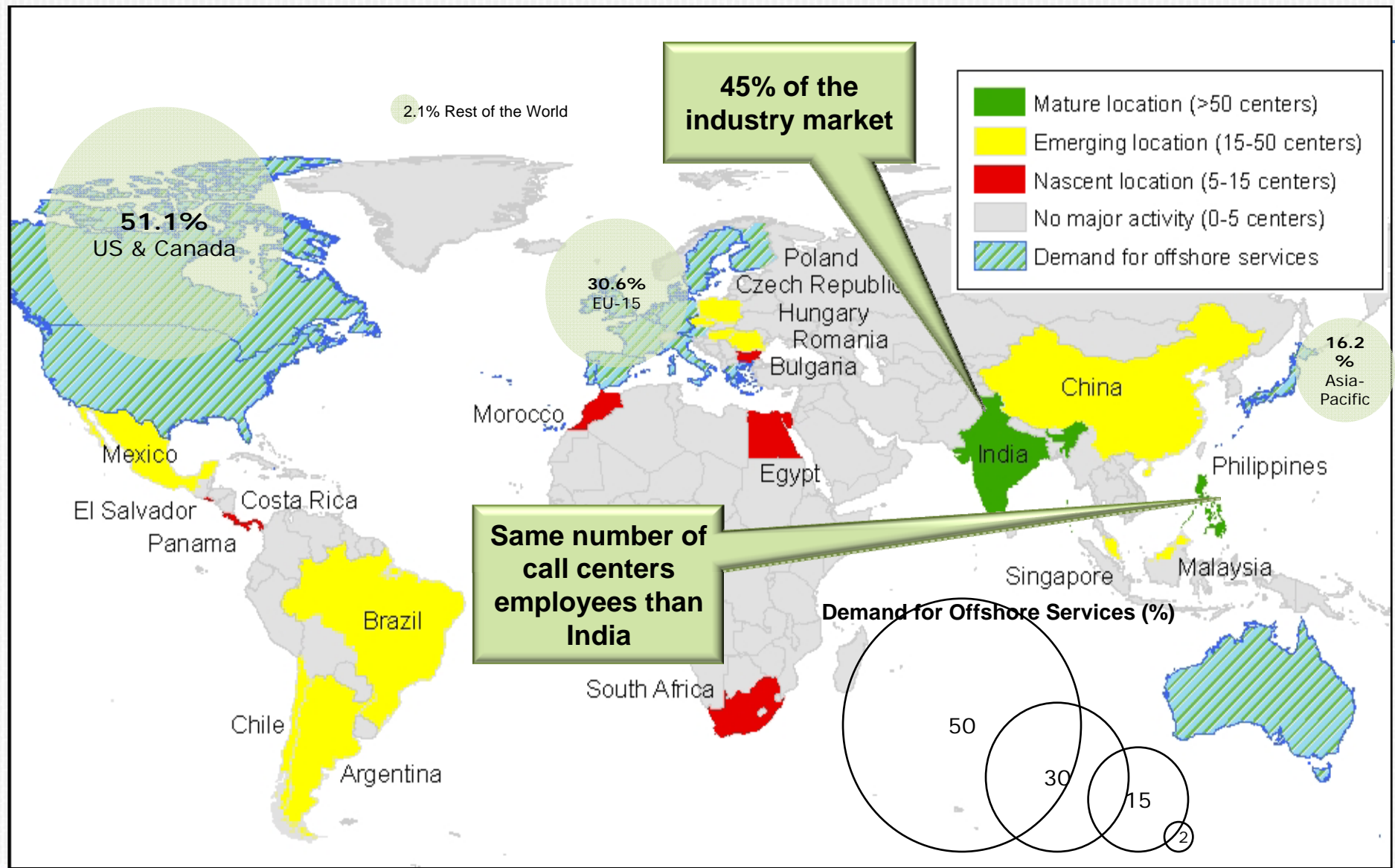
OFFSHORE SERVICES AND THE ECONOMIC CRISIS

THE SIZE OF THE OFFSHORE INDUSTRY, VARIED ESTIMATES

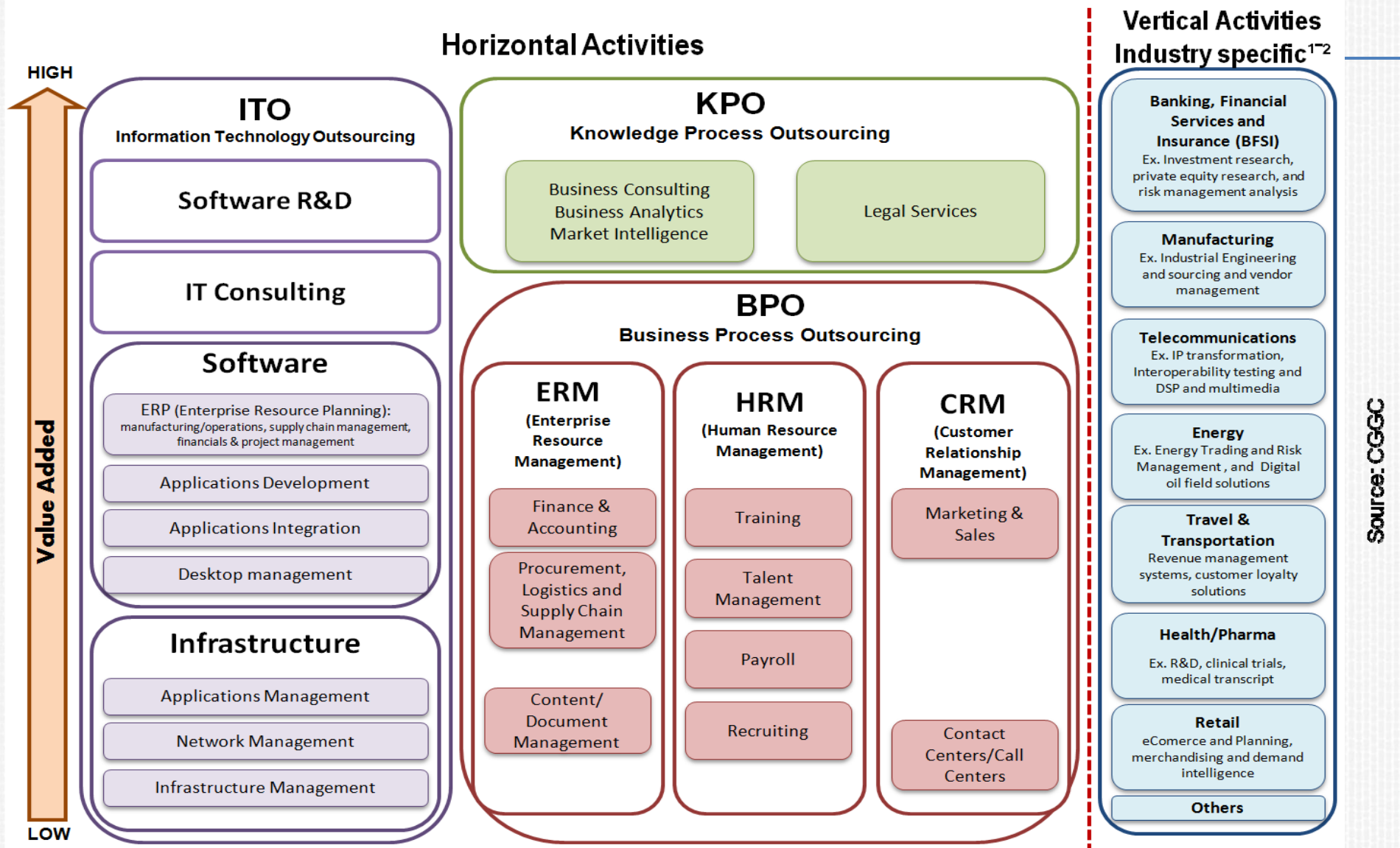


- Industry growing & evolving rapidly
- Difficult to quantify the industry → not accurate data & countries not recording these services
- New activities -most dynamic not included, such are innovation

OFFSHORE SERVICES GLOBAL SUPPLY & DEMAND



OFFSHORE SERVICES VALUE CHAIN



¹ Vertical Activities- Industry specific: Each industry has its own value chain. Within each of these chains, there are associated services that can be offshored. This diagram captures the industries with the highest demand for offshore services.

² This graphical depiction of vertical activities does not imply value levels. Each industry may include ITO, BPO and advanced activities.

MAPPING SELECTED COUNTRIES IN THE OFFSHORE SERVICES VALUE CHAIN

India



Philippines



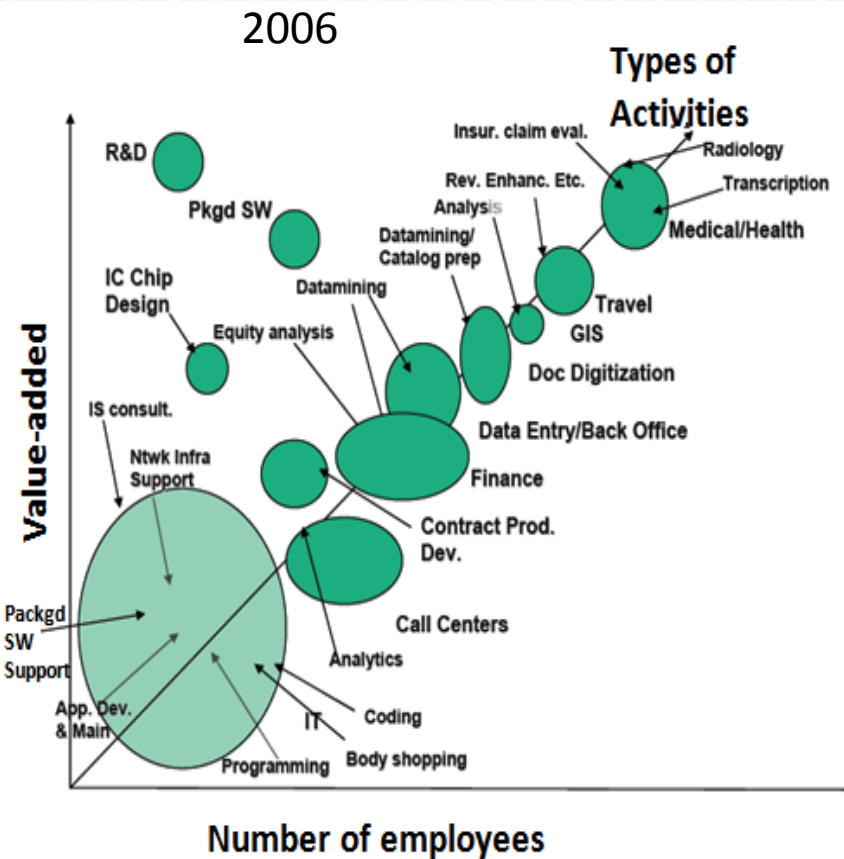
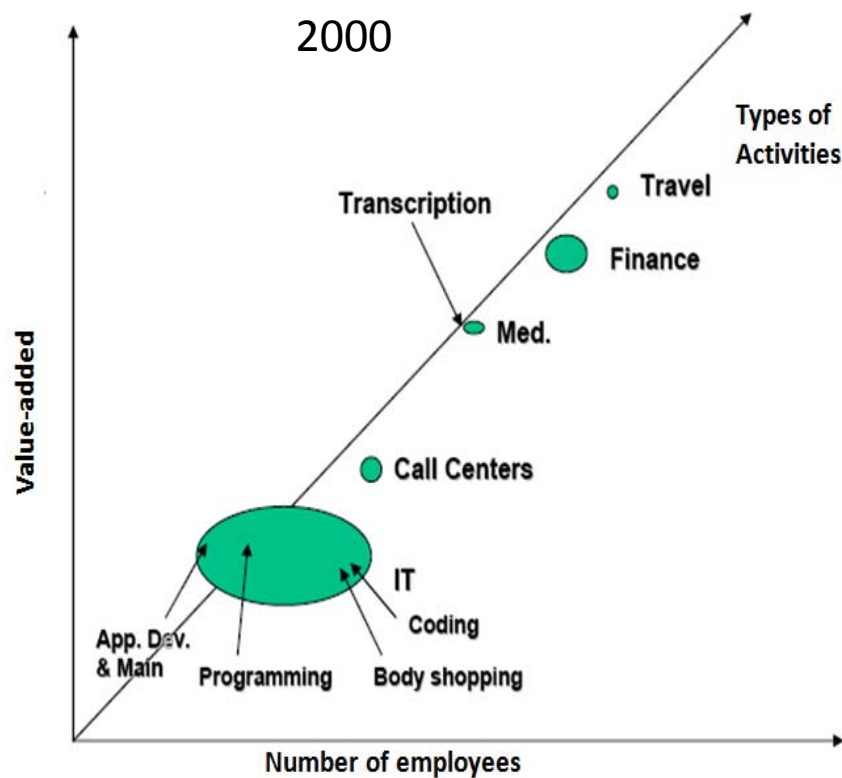
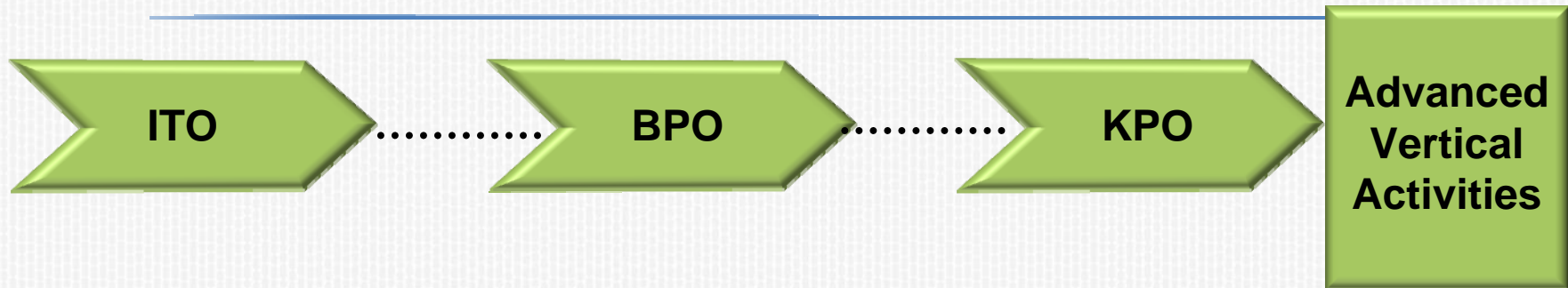
Czech Republic



Chile



THE INDIAN OFFSHORE SERVICES INDUSTRY



ECONOMIC CRISIS: SUBSTITUTION VS DEMAND EFFECTS

Substitution effect

- × Activities relocated to cheaper locations leading to **the growth in offshoring**
- × Industry focus on reducing costs and increase efficiency. During the economic crisis some companies have seen more demand of their services

Demand effect

- × Lower demand due to the recession's effect on the industry's clients, resulting in **a decline of offshoring services**
- × Slowdown in demand → including frozen offshore service contracts, reduction in the scope of the contracts, and pressure on pricing

The **economic downturn created only a small inflection** in the industry. **Industry growth rates remain positive** and in 2010 showing recovery signs

OFFSHORE SERVICES INDUSTRY INDICATORS IN INDIA, 2004-2009

	2004	2005	2006	2007	2008	2009 E
Revenues in Offshore Services Industry (US\$ billions)	12.9	17.7	23.6	31.3	40.4	47
Growth Rate Offshore Services Industry		37%	33%	33%	29%	16%
Indian GDP (current US\$ billions)	700.9	810.2	914.9	1,176.9	1,217.5	1,182.2
Offshore Services share of Indian GDP	1.8%	2.2%	2.6%	2.7%	3.3%	4.0%
Offshore Services Employment	830,000	1,058,000	1,293,000	1,621,000	2,010,000	2,236,614
Growth Rate Offshore Services Employment		27%	22%	25%	24%	11%

Source: CGGC, Duke University based on data from NASSCOM and the World Bank.
E: NASSCOM Estimates

SELECTED OFFSHORE SERVICES PROVIDERS: HIRING AND LAY OFFS DURING THE ECONOMIC CRISIS

Company	When	Laid off	Hiring	What	Where
Accenture	Mar 2009	500		Crisis effect	
	Aug 2009		100	Re-hiring part of the people laid off	
	Aug 2009	300		Crisis effect and restructuring	Worldwide
	2010		8000		Mostly in
CSC	Early 2009	98			East
	Aug 2009		550	Acquisition to serve local customers and strengthen existing sector	
Capgemini	May 2009	100		Layoffs of middle management positions	
	Jun 2009		45	New center to perform IT Help Desk Support and Business Continuity work	
	Nov 2009	85		Layoffs of middle management positions	
	Gen 2010		200	New BPO, to serve local customers	
Logica	Oct 2009		NA	New center on ITS-based solutions	
	Nov 2009	2200		Laid off for restructuring	
Wipro	Sept 2008	1000		Laid off for restructuring	
	Dec 2008		2500	Acquisition to follow customer	
	2009		1000	New center	
	Q3 2009	630			
	Nov 2009		100	New center, IT & BPO	
	Jan 2010	85		Layoffs in telecom R&D sector	
Genpact	2009		2400	New center	
	Mar 2009		500	New center to serve customers in EU	
	Early 2010		10,000		Worldwide
	Feb 2010		1,200	Acquisition	and US

CONCLUSIONS

- ✖ Economic crisis spread worldwide through financial and trade channels; not a reversal of globalization
- ✖ Global Value Chains: consolidation and resilience → upgrading & downgrading
- ✖ Emerging economies (BICS): export platforms → markets → innovation
- ✖ Beyond export-oriented industrialization: what's next?

THANK YOU FOR YOUR ATTENTION!



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